

**NATIONAL DAIRY MARKET AT A GLANCE**

**CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (7/28)**  
**BUTTER:** Grade AA closed at \$1.2000. The weekly average for Grade AA is \$1.1945 (+.0470).

**CHEESE:** Barrels closed at \$1.1200 and blocks at \$1.1625. The weekly average for barrels is \$1.1175 (+.0015) and blocks, \$1.1605 (+.0005).

**BUTTER:** The cash butter market is firm as the cash price increases. Cream supplies have tightened quickly. Recent hot temperatures across the country have lowered milk output and butterfat levels in the milk. Cream demand for Class II needs is strong and is absorbing a significant portion of the available cream supply, thus limiting cream volumes for churning. Although cream supplies are tighter for Class IV needs, most butter producers and handlers are not overly concerned at this time. Butter inventories are running well ahead of last year. Coupled with lower production, butter supplies are in balance with demand. Some butter producers are stating that unsalted butter volumes are not as available as desired, thus some speculate that this is causing the cash price to increase. Some butter producers continue to sell their cream to Class II operations versus churn. Butter demand is seasonally steady across the country, stimulated by occasional feature activity. Food service orders are also steady.

**CHEESE:** The cheese market is firming. Interest was sluggish while prices declined. As prices start to rebound, buyers' interest is increasing. Milk receipts, along with the fat and protein content, have declined noticeably in heat stressed areas of the country. The situation appears similar to a weather market in other commodities. Current cheese production is appreciably below just a few weeks ago. Cheddar blocks and barrels, between 4 and 30 days old, are the products regularly traded on the Chicago Mercantile Exchange. Cheese in aging programs appears ample. The Kansas City Commodity office announced solicitation number QBD2-010 seeking 40,000 pounds of queso blanco for September delivery. Offers are due August 3 with the public release scheduled for August 7.

**FLUID MILK:** Weather conditions are the biggest factor in the milk markets this week. Severe, summertime temperatures continue to create a poor environment for milk cows and milk production is suffering. The cumulative effect of hot weather in the West is impacting milk production. In California, handlers are reporting milk intakes are from 14 to 25% lower than a week ago. The heat is causing additional dairy animals to perish. The stress is limiting breeding and cows are eating less. Processing plants are not getting projected levels of milk. Heat is widespread in the Northwest and milk receipts are easing lower. Humidity and high nighttime temperatures are also negatively impacting the milk cows. New Mexico milk production is lower as a result of weather related issues. Declines in milk output, fat, and solids in the Midwest continue this week, an outcome of heat related stress. Milk handlers in the Northeast are indicating milk volumes are down by 6-10% over the past few weeks. Some areas have seen milk production rebound slightly when temperatures eased. Florida and other Southeastern states are importing supplemental milk to fill in for shortages as local supplies decline.

**DRY PRODUCTS:** Declining dry product production across the country is common due to drops, often severe, in milk output. Nonfat dry milk prices are higher and the market tone is firming. Offerings to the CCC support program have stopped this week and previous offers have been cancelled. Drying schedules are being reduced as milk is utilized in higher class items and less surplus milk is offered to balancing plants. Dry buttermilk prices are

trending higher. Contracted volumes are moving to accounts but spot offerings are light. The dry whey market continues to firm. Supplies are tight and held with confidence. Export interest is good and whey is clearing into export channels. The influence of higher prices for alternative protein products and NDM is helping the 34% WPC market move upwards. Lactose prices are higher and reflect good demand on the tight spot market. Supplies are mostly light to balanced and are mainly committed for contracts.

**CCC:** During the week of July 24 - 28, CCC purchased no dairy products under the price support program. Cancellations of previously offered Western NDM totaled 1,468,564 pounds.

**AUGUST ANNOUNCED COOPERATIVE CLASS I PRICES (DAIRY PROGRAMS):** For August 2006, the all-city average announced cooperative Class I price was \$15.42, \$1.92 higher than the Federal Milk Order (FMO) Class I price average for these cities, a new record high difference. The August cooperative Class I price was \$.36 lower than the July price, while the Federal Order Class I price was \$.37 lower. On an individual city basis, the difference between the Federal order and announced cooperative Class I price ranged from \$.15 in Phoenix, AZ, to \$3.64 in Miami, FL. For August 2005, the all-city average announced cooperative Class I price was \$18.50, \$1.53 higher than the Federal order Class I price average for these cities.

**WORLD DAIRY SITUATION AND OUTLOOK (WAOB):** The outlook for international dairy markets for the balance of 2006 continues to be fairly positive as demand continues to be driven by strong economic growth – over 6% forecast in developing countries and over 7% in Asian nations. This strong growth, particularly in developing regions, translates into rising disposable income accelerating expenditures not only for basic food products but also higher value added branded products. In the key China market, growth is expected to drop only slightly from the previous year but still near 10%. However, concerns remain over the persistence of high oil prices and the upward adjustment of interest rates in response to inflationary fears generated by these energy prices. Global prices for the major dairy commodities, i.e., nonfat dry milk, whole milk powder, and cheese experienced a mild decline but, for the most part, appear to be settling at relatively high levels. In contrast, butterfat markets remain unsettled as excess supplies in the EU have filled the limited intervention stores that offer a fixed support price. As a result, prices have been slipping in recent months and the EU has been raising export restitutions in order to stimulate butterfat exports and balance the domestic market. The milk supply situation is forecast to remain stable with milk production in Oceania expected to increase by nearly 1% with gains in New Zealand being offset by a decline in Australian production. In the EU, milk output for 2006 is projected to be fractionally higher and aside from butterfat, the internal markets appear to be well balanced. The consumption of cheese and other dairy products continues to absorb excess supplies of milk and export restitutions for WMP, and cheese are low or have been eliminated in the case of NDM.

**JUNE COLD STORAGE (NASS):** On June 30, U.S. cold storage holdings of butter totaled 228.6 million pounds, 0.6% less than a month ago but 27.2% more than last year. Natural American cheese holdings total 596.5 million pounds, 0.9% more than a month ago and 1.1% higher than a year ago. End of June total cheese stocks were 863.9 million pounds, 2.1% higher than May and 6.0% more June 2005.

\*\*\*\*SPECIALS THIS ISSUE\*\*\*\*

AUGUST ANNOUNCED COOPERATIVE CLASS I PRICES (PAGE 8)

JUNE COLD STORAGE REPORT (PAGES 9 - 10)

WORLD DAIRY SITUATION AND OUTLOOK (PAGE 11 - 13)

AUGUST FEDERAL MILK ORDER ADVANCE PRICES (PAGE 14)

DAIRY GRAPHS (PAGES 15 - 16)

**CHICAGO MERCANTILE EXCHANGE  
CASH TRADING**

PRODUCT	MONDAY JULY 24	TUESDAY JULY 25	WEDNESDAY JULY 26	THURSDAY JULY 27	FRIDAY JULY 28	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE BARRELS	\$1.1150 (N.C.)	\$1.1150 (N.C.)	\$1.1175 (+.0025)	\$1.1200 (+.0025)	\$1.1200 (N.C.)	(+.0050)	\$1.1175 (+.0015)
40# BLOCKS	\$1.1600 (N.C.)	\$1.1600 (N.C.)	\$1.1600 (N.C.)	\$1.1600 (N.C.)	\$1.1625 (+.0025)	(+.0025)	\$1.1605 (+.0005)
BUTTER GRADE AA	\$1.1625 (+.0100)	\$1.1875 (+.0250)	\$1.2125 (+.0250)	\$1.2100 (-.0025)	\$1.2000 (-.0100)	(+.0475)	\$1.1945 (+.0470)

CHEESE: carload = 40,000-44,000 lbs., BUTTER: carlot = 40,000-43,000 lbs. \*Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM **NOTE: CME NDM on Page 2.**

## CHICAGO MERCANTILE EXCHANGE

MONDAY, JULY 24, 2006

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

BUTTER — SALES: 4 CARS GRADE AA @ \$1.1600; BIDS UNFILLED: 13 CARS GRADE AA: 1 @ \$1.1625, 2 @ \$1.1550, 8 @ \$1.1525, 2 @ \$1.1500; OFFERS UNCOVERED: 2 CARS GRADE AA @ \$1.1650

TUESDAY, JULY 25, 2006

CHEESE — SALES: 2 CARS 40# BLOCKS: 1 @ \$1.1625, 1 @ \$1.1600; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.1200

BUTTER — SALES: 1 CAR GRADE AA @ \$1.1875; BIDS UNFILLED: 12 CARS GRADE AA: 1 @ \$1.1750, 2 @ \$1.1725, 2 @ \$1.1700, 2 @ \$1.1675, 1 @ \$1.1650, 1 @ \$1.1625, 3 @ \$1.1600; OFFERS UNCOVERED: 1 CAR GRADE AA @ \$1.2200

WEDNESDAY, JULY 26, 2006

CHEESE — SALES: 6 CARS BARRELS @ \$1.1175; BIDS UNFILLED: 3 CARS BARRELS @ \$1.1150; OFFERS UNCOVERED: NONE

BUTTER — SALES: 15 CARS GRADE AA: 3 @ \$1.2150, 2 @ \$1.2200, 3 @ \$1.2175, 1 @ \$1.2150, 1 @ \$1.2125, 1 @ \$1.2100, 4 @ \$1.2125; BIDS UNFILLED: 10 CARS GRADE AA: 2 @ \$1.2125, 1 @ \$1.2100, 2 @ \$1.2000, 1 @ \$1.1975, 2 @ \$1.1950, 2 @ \$1.1875; OFFERS UNCOVERED: 2 CARS GRADE AA @ \$1.2200

THURSDAY, JULY 27, 2006

CHEESE — SALES: 1 CAR BARRELS @ \$1.1200; 3 CARS 40# BLOCKS: 1 @ \$1.1700, 1 @ \$1.1650, 1 @ \$1.1600; BIDS UNFILLED: 1 CAR BARRELS @ \$1.1150; OFFERS UNCOVERED: NONE

BUTTER — SALES: NONE; BIDS UNFILLED: 5 CARS GRADE AA: 1 @ \$1.2025, 2 @ \$1.2000, 1 @ \$1.1800, 1 @ \$1.1600; OFFERS UNCOVERED: 9 CARS GRADE AA: 1 @ \$1.2100, 2 @ \$1.2200, 5 @ \$1.2300, 1 @ \$1.2400

FRIDAY, JULY 28, 2006

CHEESE — SALES: 5 CARS BARRELS: 2 @ \$1.1225, 1 @ \$1.1250, 1 @ \$1.1225, 1 @ \$1.1200; 11 CARS 40# BLOCKS: 5 @ \$1.1700, 1 @ \$1.1725, 1 @ \$1.1675, 1 @ \$1.1700, 1 @ \$1.1650, 2 @ \$1.1625; BIDS UNFILLED: 1 CAR BARRELS @ \$1.1100; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.1250; 2 CARS 40# BLOCKS: 1 @ \$1.1650, 1 @ \$1.1700

BUTTER — SALES: 4 CARS GRADE AA: 1 @ \$1.2075, 1 @ \$1.2050, 1 @ \$1.2025, 1 @ \$1.2000; BIDS UNFILLED: 3 CARS GRADE AA: 1 @ \$1.2000, 2 @ \$1.1600; OFFERS UNCOVERED: 2 CARS GRADE AA @ \$1.2175

**CME CASH NONFAT DRY MILK:** Extra Grade closed the week at \$0.8700 and Grade A at \$0.8700. (The last price change for Extra Grade and Grade A was on June 27, 2006.) The weekly average for Extra Grade is \$0.8700 (N.C.) and Grade A is \$0.8700 (N.C.).

## BUTTER MARKETS

## JUNE COLD STORAGE

According to NASS, June month-ending cold storage figures for butter total 228.6 million pounds, 27.0% more than last June but 1.0% lower than May 2006.

## NORTHEAST

The butter market remains generally steady, although the cash price at the CME has increased 1 3/4 cents in the three most recent trading sessions to \$1.1625. Cream volumes have tightened. Class II demand increased this week from a slower week last week. Some cream traders state that this could be the situation for the balance of the summer where demand fluctuates from one week to the next. Butter producers indicate that cream volumes are less available for churning, although most are not overly concerned knowing that inventory levels are considerably higher than last year at this time. The Cold Storage report released earlier this week indicated that June 30 butter holdings totaled 228.6 million pounds, 27% heavier than last June, but 1% lower than last month. Demand is seasonally steady, typical for this time of the summer. Retail sales are fair. Most retail buyers are placing orders for near term use with higher orders if features are occurring or scheduled. Food service orders are steady. Buying patterns are typical. Sales of bulk butter f.o.b. East, are reported in a range from flat market to 3.0 cents over the CME price/average.

**CORRECTION:** The bulk price statement for Volume 73, Report 29, July 17 – 21, 2006, should have read: Sales of bulk butter f.o.b. East, are reported in a range from flat market to 3.0 cents over the CME price/average.

## CENTRAL

The butter market is firm as the cash butter price increased 6 3/4 cents in the 5 most recent trading sessions to close at \$1.2125 at mid week. This is the highest cash price since early March 2006. Cream supplies for butter continue to tighten. A few Midwestern butter producers are selling some of their cream supply versus churning due to positive financial returns at this time. Cream buyers are actively seeking additional volumes of cream to meet Class II needs. Salted butter stocks continue to run well ahead of last year while unsalted stocks are

reported to less available. Producers of unsalted butter state that this is not a positive time to be generating unsalted butter, especially when 2% additional butterfat is needed to generate unsalted butter. Butter demand is seasonally steady. Some retailers are placing heavier orders as they prepare or are already running features. Food service orders are seasonally steady. Many food service buyers state that they are not seeing significant differences in butter needs this summer versus last summer due to higher fuel costs. Bulk butter for spot sale is being reported in the flat – 2 cents per pound over various pricing basis.

## WEST

Cash butter prices at the CME have increased 6 3/4 cents since last week to stand at \$1.2125 at midweek. Prices have not been this high since March. The reasons given by trade sources for the increases are the hot weather cutting milk and cream production and increased competition for available cream supplies. Producers are stating that demand for bulk and print butter is excellent with some moving across the country to fill buyer needs. There is a real shortage of unsalted butter. Storage reports may indicate that some additional butter is coming out of the warehouse and freezer to satisfy current needs. The NASS *Cold Storage* report indicates that 228.6 million pounds of butter were in storage facilities at the end of June, down 1% or 1.3 million pounds from the end of May. This is the first time since 1999 that butter stocks have declined in June. Stocks were up 27% or 48.9 million pounds from June 2005. CME weekly warehouse stocks declined by 1.69 million pounds last week to stand at 155.9 million pounds. This is the largest weekly decline noted since November of last year. Some contacts are wondering how long this rally in the market will last. They are not sure that the supply/demand balance is all that tight to justify the market increasing this fast. Quota imports of butter for the first six months of the year total 5.8 million pounds, down 37% from the same period last year. Imports now stand at 38% of the annual quota. New Zealand remains the country of origin for most of the imports at 61%. Imports of High-Tier butter (above quota and with a penalty) for the same period total 421,600 pounds, up 90,500 pounds from last year. Prices for bulk butter range from 2 cents under to 5 cents under based on the CME with various time frames and averages.

## NASS DAIRY PRODUCT PRICES

## U.S. AVERAGES AND TOTAL POUNDS

WEEK ENDING	CHEESE		NDM	BUTTER	DRY WHEY
	40# BLOCKS	38% MOISTURE BARRELS			
JULY 22	1.1552	1.1478	0.8331	1.1272	0.2805
	9,554,308	10,335,715	21,564,234	4,123,934	13,096,796

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

## CHEESE MARKETS

## NORTHEAST

Wholesale prices are unchanged on natural but lower on process. Current interest is moderate though the recent heat boosted food service account needs in many vacation areas. Some end of summer/Labor Day/reopening of school promotions are being prepared. Current cheese production is steady to lower as milk receipts declined after the recent bout of heat and humidity.

WHOLESALE SELLING PRICES: DELIVERED,  
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.2450-1.7650
Cheddar Single Daisies	:	1.2025-1.6875
Cheddar 40# Block	:	1.3000-1.5750
Process 5# Loaf	:	1.3250-1.5700
Process 5# Sliced	:	1.3450-1.6550
Muenster	:	1.3175-1.5175
Grade A Swiss Cuts 10 - 14#	:	2.4500-2.6500

## MIDWEST

The cheese market is unsettled. Current interest revolves around regular accounts with spot interest typically light. Recent price weakness at the Chicago Mercantile Exchange, at least on barrels, has many buyers delaying orders in order to wait for prices to reach the bottom. Natural interest is generally just fair with some operations with extra time available to fill orders. Process interest is steady to generally slower commercially. Some processors are filling in part of their schedules with government contracts for school lunch and other programs. At least a few plant order lead times have increased on at least a few varieties. Cheese production in the region is noticeably lower than just a week ago as extended heat and humidity lowered milk receipts and cheese yields.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,  
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.3850-1.6300
Brick And/Or Muenster 5#	:	1.6500-1.7175
Cheddar 40# Block	:	1.5200-2.2650
Monterey Jack 10#	:	1.6500-2.2650
Blue 5#	:	2.0225-2.3300
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.3475-2.3650
Grade A Swiss Cuts 6 - 9#	:	2.1550-2.8300

WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS  
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

	BUTTER	:	CHEESE
07/24/06	55,829	:	135,081
07/01/06	52,817	:	139,697
CHANGE	3,012	:	-4,616
% CHANGE	6	:	-3

## WEST

Block cheese prices at the CME cash market have held at \$1.16 since July 7. Barrel prices showed a little weakness last week, but came back a fraction this week. Supplies and offerings of current cheese are generally sufficient for the level of interest noted from buyers. In fact, offerings of cheese at some locations are on the heavy side at times with additional discounts noted to try and keep cheese moving and to help cover some of the freight costs. Other operations, perhaps more impacted by the hot weather, are running short of cheese. Most feel that demand is still rated as good generally, but that supplies of cheese are getting ahead of the demand side for some operations. With that said, some operations have run the numbers and are utilizing additional NDM solids to increase the cheese make because they believe that there is a good chance for profit on this additional cheese this fall. The cheese *Cold Storage* report released by NASS last week indicated that total cheese stocks were 863.9 million pounds, the highest total ever recorded for June and the second largest ever for any month. American cheese stocks were 596.5 million pounds, up 1% from last month and last year. Swiss stocks at the end of June total 35.5 million pounds, up 12.8 million pounds or 56% from last year. Quota imports of cheese for the first six months of the year are 119.8 million pounds, 87% of the total for the same period last year. Imports stand at 40% of the annual quota. Imports of High-Tier cheese (above quota and with a penalty) are 15.3 million pounds, 30% higher than for last year at this time.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND  
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.2675-1.5250
Cheddar 40# Block	:	1.2775-1.6300
Cheddar 10# Cuts	:	1.4575-1.6775
Monterey Jack 10#	:	1.4675-1.6275
Grade A Swiss Cuts 6 - 9#	:	2.3500-2.7000

## FOREIGN

Reported prices are unchanged. Current supplies are at least adequate for the generally lighter summer demand. Total June 2006 cheese imports totals 8.76 million Kg., down 568,000 Kg., (-6.1%) from last June. Cumulative January - June cheese imports total 54.36 million Kg., down 7.94 million Kg., (-12.7%) from the same period in 2005. High tier cheese imports for the first 6 months of 2006 total 6.92 million Kg., up 1.60 million Kg., (29.9%) from the same period in 2005.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK  
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

	:	NEW YORK
VARIETY	:	IMPORTED : DOMESTIC
Roquefort	:	TFEWR : -0-
Blue	:	2.6400-4.3500 : 1.5650-3.0525
Gorgonzola	:	3.6900-5.9400 : 2.0675-2.4900
Parmesan (Italy)	:	TFEWR : 2.9725-3.0775
Romano (Italy)	:	2.1000-3.1900 : -0-
Provolone (Italy)	:	3.4400-6.0900 : 1.5575-1.7950
Romano (Cows Milk)	:	-0- : 2.7550-4.8975
Sardo Romano (Argentina)	:	2.8500-3.2900 : -0-
Reggianito (Argentina)	:	2.6900-3.2900 : -0-
Jarlsberg-(Brand)	:	3.1200-4.1500 : -0-
Swiss Cuts Switzerland	:	-0- : 2.4500-2.6500
Swiss Cuts Finnish	:	2.5900-2.8500 : -0-
Swiss Cuts Austrian	:	TFEWR : -0-
Edam	:	:
2 Pound	:	TFEWR : -0-
4 Pound	:	TFEWR : -0-
Gouda, Large	:	TFEWR : -0-
Gouda, Baby (\$/Dozen)	:	:
10 Ounce	:	27.8000-31.7000 : -0-

\* = Price change.



## FLUID MILK AND CREAM

## E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	60	0	16	0	0	0
SOUTHEAST STATES	28	0	0	0	0	0

Hot and humid weather conditions continue to be reported for much of the Eastern portion of the country from New England to Florida. Some reports from the New England area indicate that temperatures have moderated somewhat, especially at night, but temperatures still remain hot. Milk handlers state that milk receipts have dropped between 6 – 10% over the past few weeks. Where temperatures have eased somewhat, milk handlers indicate that declines have slowed and basically stabilized for the time being. Some even indicated that production might be rebounding slightly. Milk handlers are hopeful that a rebound will occur, but for most, they are just happy that the declines of recent days have slowed. Class I sales are good as milk volumes decline and school bottling pipelines refill. Milk is continuing to move from one area to another in increasing volumes. Imports into Florida more than doubled last week's volumes with increased need anticipated for the foreseeable future. Milk is also starting to move into the Southeast from more Northern areas. Milk handlers feel that this movement will continue to increase, especially with questionable milk production trends and as school bottling pipelines refill. School milk requirements will continue to build throughout the region for the next month or so as students return to classes. Condensed skim demand remains basically steady with most sales occurring under contract, although Class III demand has slowed. Cream markets are very firm. In most instances, cream handlers state that we have not seen anything yet. Pricing multiples are increasing daily with delivered pricing multiples into the 150's. Some indicate that they would not be surprised to see pricing multiples reach the 160's in the near future. Cream volumes are tight and are expected to get tighter. Lower butterfat levels on declining milk production are being reported in the East and for much of the country.

## FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	1.5836-1.6754
DELIVERED EQUIVALENT: ATLANTA	-	1.6180-1.7327 M 1.6754-1.6983
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	1.5032-1.5950

PRICES OF CONDENSED SKIM, DOLLARS PER LB. SOLIDS,

F.O.B. PRODUCING PLANTS:	
NORTHEAST - CLASS II - INCLUDES MONTHLY FORMULA PRICES	- .8975-.9700
NORTHEAST - CLASS III - SPOT PRICES	- .8900-.9500

## M I D W E S T

Hot weather in recent weeks has not only reduced milk volumes received from the farm but also reduced fat and protein levels to the point of generating a manufacturing plant operator's comment that "that there is nothing in the milk, it is just white water." The extended heat stress and dry conditions are more pronounced throughout parts of the central and southern states in the region. With a hot weather forecast for the entire region, most handlers and customers expect even tighter supplies next week. Milk and cream customers are also dealing with reduced load sizes and cancelled loads as a result of declines in other areas. Reduced crop conditions and winter feed concerns are also influencing milk producer culling decisions in some areas. Class I interest is still holding at lighter summer levels with the usual improvement where retailers are running features. Cottage cheese and sour cream production is up because of retail features in some markets. Manufacturing milk interest is improved for the generally smaller volumes available. Reported spot manufacturing prices were sharply higher but lack a sufficient number to report a price range. Cream interest is spotty, generally good from ice cream accounts. An ice cream maker that had been buying "attractively priced" milk is now buying condensed instead. Butter makers are still trying to cover unsalted butter orders, a product with a shorter shelf life than salted butter. Printers need to watch salted butter volumes being tempered out of the freezer to keep from running out of bulk.

## WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	JULY 20 - 26	PREVIOUS YEAR
SLAUGHTER COWS	\$ 45.00- 52.00	\$ 49.00- 54.50
REPLACEMENT HEIFER CALVES	\$300.00-650.00	\$300.00-680.00

## SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	JULY 20 - 26	PREVIOUS YEAR
SLAUGHTER COWS	\$ 46.00- 54.50	\$ 51.00- 57.00

## W E S T

June 2006 POOL RECEIPTS of milk in CALIFORNIA total 3.04 billion pounds, 0.5% higher than last year. January to June 2006 cumulative receipts are 4.2% higher than 2005. The June blend price, at a fat test of 3.57%, is \$10.70, 2 cents lower than May and \$2.65 less than June 2005. The percentage of receipts used in Class 1 products is 14.64%. The June quota price is \$11.90 and the over quota price is \$10.20. These prices are unchanged from May but \$2.66 lower than a year earlier. CALIFORNIA milk production is being seriously impacted by the cumulative and lingering effects of hot weather over the last several weeks. Several counties have issued emergency declarations. Very hot temperatures above the 110 degree mark are common in the southern, central and northern producing regions. Additionally, these areas are experiencing record high low temperatures that are often 10 to 20 degrees above normal. The extent of milk production losses in recent weeks is variable. Handlers report milk declines from 14 to 25% lower compared to a week ago. Further compounding the problem, the content of fat and other solids in the milk is lower. Processing plants are not getting scheduled loads of milk and are finding load weights to be lower than projected. Plants are also not getting non contracted loads from other processors. Production schedules are then below expectations. Fluid milk orders are steady at seasonal levels. Some delays are happening where bottlers don't have the milk on schedule to fill all orders. At the farm level, cow mortality rates are higher than normal. Calf operations are also experiencing higher death rates. Animal loss numbers are hard to verify. The California Department of Food and Agriculture and Environmental Protection Agency released guidelines on emergency animal disposals because rendering operations are not able to handle the increases in dead animals. Rendering capacity has been reduced in recent years due to a variety of reasons, which is a big reason for the current need for alternate disposals. Farm level heat abatement measures are not able to keep up with the conditions. Cows are stressed and not eating. Breeding activity is nearly nonexistent in these hot conditions. Electricity issues are resurfacing in the state, but there are no reports from dairy plants that power supplies have been curtailed. NEW MEXICO is also experiencing declines in milk production due to hot conditions. The drop is not as severe as in nearby states, but less milk and lower load weights are widespread. Plants are running on reduced schedules. Mother Nature has helped to tighten the CREAM market. Prices moved higher from both increased multiples and basing points. Demand had been good from ice cream producers, spurred on by hotter weather in the region. Demand for ice cream is noted as good. With cream declining, less butter is being churned. At the CME, Grade AA butter prices are increasing. The July 26 close was \$1.2125, 6.75 cents higher than last Wednesday. Multiples for cream moved higher at 112 to 135, FOB, and vary depending on class usage and basing points. The heat has been the story for the last week to ten days in OREGON and WASHINGTON. Temperatures in coastal cities have been in the high 90's and cities inland have been in the low 100's. In the central part of the region, temperatures have hit at least 114. To further compound the problem, temperatures have not been cooling off at night enough to give much relief. The cows have been hit hard. Declines in milk output of 10-15% are common. When it begins to cool off, producers are wondering what sort of a recovery they will see. They are not expecting much because the stress has been greater than normal. Fat and protein tests are also falling faster than anticipated. Plants are looking for additional supplies of milk and are generally not able to find what they need. Hay quality remains a problem in the region and producers have not been able to book as much grain as normal so are going into the fall hoping for a price decline. Heifer prices are weakening and demand is declining due to heat and milk price issues. Stress levels continue to increase in UTAH and IDAHO. Hot days and warm nights with some humidity are stressing the dairy herds. Not as many facilities in this region have heat abatement equipment to help cool the animals. Normally a hot spell lasts only a few days and then breaks so that it is not feasible to spend the money on this equipment. Some dairies are rethinking this equation this year. Hay quality seems to be improving in the region as the harvest progresses through the different cuttings. Some dairies have decided to wait for the third or fourth cutting to see if they can get some quality at lower prices.

**NDM, BUTTERMILK & WHOLE MILK**

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

**NONFAT DRY MILK - CENTRAL AND EAST**

CENTRAL: Prices are unchanged to higher on a firm market. Production is unchanged to lower in response to reduced milk intakes at some locations. Supplies are generally short of buyer interest, encouraging buyers to search for additional supplies on the West coast. As program prices edge higher, some traders are opting not to trade NDM, especially since some traders were caught with high priced NDM as the market significantly declined earlier this year. Contractual movement is steady whereas spot movement is light. For report 30 in 2005, low heat mostly prices were .9800 – 1.0000 and high heat prices were .9900 – 1.1000.

EAST: Prices are unchanged to higher on a firm market. Production is reduced as increasing volumes of milk are diverted to Florida to displace current deficiencies. NDM is available to satisfy contractual demand. For spot load interest, buyers are resorting to the resale market and paying significant premiums. Increased supply availability is not anticipated until well after the school sessions resume this fall.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A  
LOW/MEDIUMHEAT: .8450 - .9050 MOSTLY: .8650 - .8900  
HIGHHEAT: .8800 - .9600

**NONFAT DRY MILK - WEST**

Western prices for low/medium heat NDM moved higher this week. The market tone is firming. The major news affecting the NDM market is the decline in production because of the hot weather in the region, especially in California. NDM is often the last utilization in the milk processing chain. Several drying plants' schedules have been sharply reduced. Spot offerings are light at best under the current tight conditions. Contract orders are more on schedule. Improved interest from cheese producers is noted. No offerings to the CCC have been made this week. During the week of July 17-21, 138,802 pounds of NDM were offered by Western producers. Western high heat prices are higher. Trading is light and moving mostly to seasonal, contracted accounts. Drying schedules are more sporadic and on an as needed basis. Producer inventories remain light.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A  
LOW/MEDIUMHEAT: .8100 - .8400 MOSTLY: .8200 - .8350  
HIGHHEAT: .8375 - .8800

**CALIFORNIA MANUFACTURING PLANTS - NDM**

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
July 21	\$.8188	11,025,440	528,016
July 14	\$.8143	11,536,939	1,622,113

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

**DRY BUTTERMILK – CENTRAL**

Prices are unchanged to higher on a steady to firm market. Churn activity is significantly reduced with some producers indicating that plants are anticipated to remain idle until October or November when cream is expected to be more readily available. As a result, production of dry buttermilk is very light and inventories short of buyer interest. With an over-abundance of dry buttermilk available at the beginning of the year, some buyers are miffed by the sudden shortage in supplies. Unconfirmed reports of offerings of aged supplies with more than 6 months are noted. For report 30 in 2005, prices were .9600 – 1.0400.

F.O.B. CENTRAL: .8750 - .9200

**DRY BUTTERMILK - NORTHEAST AND SOUTHEAST**

Prices are higher and nominal. The market tone is firm. Some loads of buttermilk from the Northeast are moving into the Central region to supplant supply shortages. Production is seasonally waning as less cream is available to the churn. Stocks are limited and clearing mostly into contractual accounts. For report 30 in 2005, Northeast prices were .9300 – 1.0050 and Southeast prices were .9800 – 1.0600.

F.O.B. NORTHEAST: .8250 - .8750  
DELVD SOUTHEAST: .8450 - .8950

**DRY BUTTERMILK - WEST**

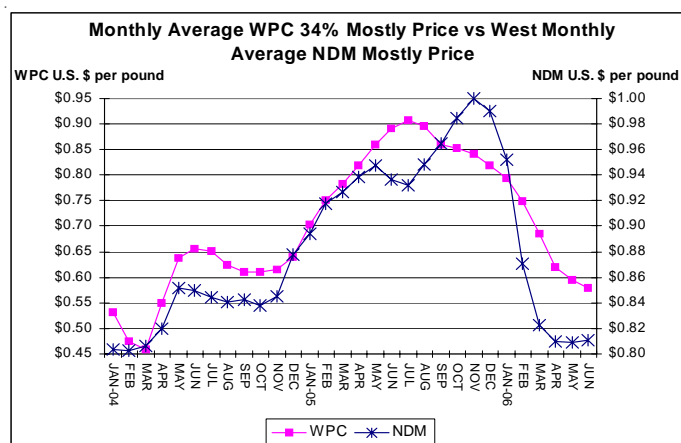
Western buttermilk prices are moving higher. The market tone continues to firm. Producer offerings are limited and often held to fill future orders. Spot demand is light and there are no aggressive buyers in the market. Drying schedules are being reduced as less butter is being churned. Lower milk and cream supplies are common in the region. Stocks are light.

F.O.B. WEST: .7150 - .7950 MOSTLY: .7300 - .7900

**DRY WHOLE MILK - NATIONAL**

Dry whole milk price are steady to higher. The increases in the butter price are the major influence in price increases for dry whole milk. Production has been reduced in many areas affected by milk output drops. Milk is clearing to higher Class items ahead of dried products. Producers' stocks are light to moderate. Supplies are adequate to fill current spot and contract needs.

F.O.B. PRODUCING PLANT: 1.1000 - 1.2400



**WHEY, CASEIN & EVAPORATED MILK**

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

**DRY WHEY - CENTRAL**

Prices are higher on a firm market. Good export movement is encouraging higher prices. In addition, as prices move higher, some buyers are attempting to garner additional loads to satisfy future needs and to avert anticipated higher prices. Despite milk production declines in the Central region, available condensed whey supplies are plentiful, encouraging steady whey output. Stocks of whey are mixed with some locations reportedly in a sold out position whereas others have loads available. Forward contracts for the month of August are noted above the range. Feed grade supplies are increasingly limited as feed buyers search for low cost alternatives to Extra Grade whey and lactose. For report 30 in 2005, Extra Grade mostly prices were .2700 - .2750 and feed prices were .2400 - .2600.

F.O.B. CENTRAL: .2900 - .3150 MOSTLY: .2900 - .3000

F.O.B. CENTRAL: ANIMAL FEED MILK REPLACER: .2675 - .2800

**DRY WHEY - NORTHEAST AND SOUTHEAST**

Whey prices are higher on a firm market. Increased inquiry from export markets is noted. Production is steady to lower as more milk shifts to the South to satisfy Class I demand. Supplies are tight with limited spot availability, especially as many manufacturers are reportedly sold out. Some shipment delays are reported on contractual agreements. Some resale loads are reported at 4 cent premiums. For report 30 in 2005, Northeast prices were .2775 - .3000 and Southeast prices were .2950 - .3175.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .2900 - .3050

DELVD SOUTHEAST: .3100 - .3300

**DRY WHEY - WEST**

Range prices for Western whey powder moved both higher and lower in more active trading. The mostly series increased fractionally again this week. Buyers are more aggressive in searching for powder. Demand is rated as good for both domestic and export sales. Some producers had some stock issues a few weeks ago, but they seem to be in better shape now. Production levels are about steady, but there is some lower trends noted in areas that the heat is impacting the most. Some of these areas report milk output off 15-20%. The plants are anticipating some sort of a rebound when things cool off, but they are not expecting much of a bounce. European whey prices are firm and supplies are tight. Hot weather is also adversely impacting the milk flow there.

NONHYGROSCOPIC: .2725 - .3125 MOSTLY: .2900 - .3000

**WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST**

Prices are higher on a steady to firm market. Continued strong export demand for 80% WPC is decreasing the availability of 80% WPC as a substitute to 34% WPC. Some feed buyers bought aged NDM from the recent CCC government sellback as a protein substitute. Prices reported on the CCC sellback were between \$0.5151 and \$0.7611. Production is generally steady. Stocks of 34% WPC are mixed with some plants reporting limited supplies whereas others have loads ready to move. Bagged supplies generate a premium compared to bulk or totes. For report 30 in 2005, mostly prices were .8950 - .9200.

F.O.B. EXTRA GRADE 34% PROTEIN: .5700 - .6250 MOSTLY: .5850 - .5950

**LACTOSE - CENTRAL AND WEST**

Prices are unchanged to higher on a firm market. Most trade is contractual with limited spot supply availability. Buyers and traders continue to speculate on market trends into the fourth quarter and beyond, especially as consumption may change in response to high prices or available substitutes such as whey or dry permeate. Sellers anticipate continued strong markets based on the lack of new suppliers, reduced supplies due to equipment changes at some plants, increased export demand, unfettered infant formula and confectionary interest, tight sugar markets and a weak dollar. Current production is steady. Off grade supplies are short of feed buyer interest. For report 30 in 2005, mostly prices were .1900 - .2100.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.

F.O.B. EDIBLE: .2775 - .4100 MOSTLY: .3100 - .3500

**CASEIN - NATIONAL**

Casein markets and prices are holding steady. Domestic buyers state that they are basically getting their needs filled from regular and ongoing suppliers. Rennet demand remains slow with acid more active. Stocks of rennet are available although acid volumes are not as plentiful. Oceania suppliers indicate that inventoried stocks are declining, although the new milk production season is about to resume, thus will casein output. At this point, it is still too early to speculate on casein output from the region, but producers are hopeful to maintain levels of recent years. European supplies are available, but lower than recent years.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

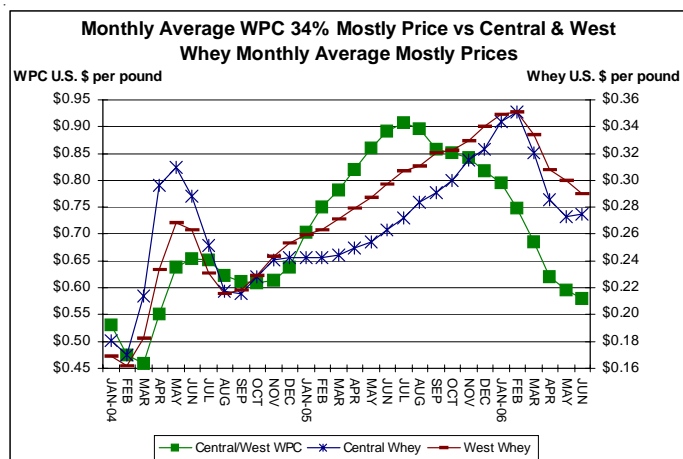
RENNET: 3.0000 - 3.1000  
ACID: 3.0500 - 3.1500

**EVAPORATED MILK - NATIONAL**

Prices are unchanged. The market tone is steady. For report 30 in 2005, prices were \$19.50 - 30.00.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$21.20 - 36.00

Excluding promotional and other sales allowances. Included new price announcements.



CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF JULY 24 - 28, 2006			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/05	SAME PERIOD LAST YEAR	WEEK ENDING 07/21/06	SAME PERIOD LAST YEAR
<b>BUTTER</b>							
Bulk	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<b>TOTAL</b>	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<b>CHEESE</b>							
Block	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Process	-0-	-0-	-0-	198,000	-0-	-0-	-0-
<b>TOTAL</b>	-0-	-0-	-0-	198,000	-0-	-0-	-0-
<b>NONFAT DRY MILK</b>							
Nonfortified	-0-	1,468,564	-1,468,564	64,684,450	31,817,269	-0-	-0-
Fortified	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<b>TOTAL</b>	-0-	1,468,564	-1,468,564	64,684,450	31,817,269	-0-	-0-

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF JULY 24 - 28, 2006 =	-0.3	-17.1	COMPARABLE PERIOD IN 2005 =	0.0	0.0
CUMULATIVE SINCE OCTOBER 1, 2005 =	16.1	754.9	CUMULATIVE SAME PERIOD LAST YEAR =	7.0	370.4
CUMULATIVE JANUARY 1 - JULY 28, 2006 =	16.1	754.9	COMPARABLE CALENDAR YEAR 2005 =	0.0	0.0

\* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22

\*\*Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES FOR THE WEEK OF JULY 24 - 28, 2006 (POUNDS)

REGION	BUTTER			CHEESE			NONFAT DRY MILK	
	BULK	PACKAGED	UNSALTED	BLOCK	BARREL	PROCESS	NONFORTIFIED	FORTIFIED
CENTRAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
WEST	-0-	-0-	-0-	-0-	-0-	-0-	-1,468,564	-0-
EAST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-

CCC ADJUSTED PURCHASES SINCE 10/1/05 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
CENTRAL	-0-	-0-	198,000	-0-	2,056,719	1,331,567	14.2	4.2
WEST	-0-	-0-	-0-	-0-	60,223,255	29,415,099	82.5	92.4
EAST	-0-	-0-	-0-	-0-	2,404,476	1,070,603	3.3	3.4
<b>TOTAL</b>	-0-	-0-	198,000	-0-	64,684,450	31,817,269	100.0	100.0

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.

BUTTER Bulk \$1.0500 per pound; 1# Prints \$1.0850

CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289

NONFAT DRY MILK Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 07/08/06 & Comparable Week 2005

Regions* (000 HEAD)	1	2	3	4	5	6	7	8	9	10	U.S. TOTAL		% DAIRY OF ALL	
											WEEK	SINCE JAN 1	WEEK	SINCE JAN 1
2006-Dairy	N.A.	0.4	4.7	1.9	11.2	1.6	0.3	N.A.	12.1	1.3	34.3	1,180.0	42.2	44.6
2005-Dairy	N.A.	0.6	4.9	1.7	10.8	2.1	0.5	N.A.	9.9	1.3	32.5	1,186.1	45.3	47.2
2006-All cows	N.A.	0.4	5.9	8.6	22.5	14.4	10.6	N.A.	14.1	2.0	81.2	2,646.4		
2005-All cows	N.A.	0.6	6.0	8.7	21.5	10.8	9.0	N.A.	11.3	1.5	71.7	2,511.6		

**SOURCE:** The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74
2003	9.78	9.66	9.11	9.41	9.71	9.75	11.78	13.80	14.30	14.39	13.47	11.87
2004	11.61	11.89	14.49	19.66	20.58	17.68	14.85	14.04	14.72	14.16	14.89	16.14
2005	14.14	14.70	14.08	14.61	13.77	13.92	14.35	13.60	14.30	14.35	13.35	13.37

FEDERAL MILK ORDER CLASS PRICES FOR 2006 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	13.38	13.38	12.49	11.22	10.97	10.75	11.34	10.97				
II	13.25	12.62	11.69	11.37	11.13	11.00						
III	13.39	12.20	11.11	10.93	10.83	11.29						
IV	12.20	11.10	10.68	10.36	10.33	10.22						

1/ Specific order differentials to be added to this base price are located at [www.ams.usda.gov/dyfm05/mib/cls\\_prod\\_cmp\\_pr.htm](http://www.ams.usda.gov/dyfm05/mib/cls_prod_cmp_pr.htm)

**ANNOUNCED COOPERATIVE CLASS I PRICES FOR SELECTED CITIES IN FEDERAL MILK  
ORDERS, AUGUST 2006, WITH COMPARISONS 1/**

For August 2006, the all-city average announced cooperative Class I price was \$15.42 per cwt., \$1.92 higher than the Federal milk order (FMO) Class I price average for these cities, a new record high difference. The August cooperative Class I price was \$.36 lower than the July price, while the Federal order Class I price was \$.37 lower. On an individual city basis, the difference between the Federal order and announced cooperative Class I price ranged from \$.15 in Phoenix, AZ, to \$3.64 in Miami, FL. For August 2005, the all-city average announced cooperative Class I price was \$18.50, \$1.53 higher than the Federal order Class I price average for these cities.

City	August 2006		
	Announced Cooperative Class I Price	Federal Milk Order Class I Price	Difference
	Dollars per hundredweight, 3.5% butterfat		
Atlanta, GA	16.74	14.07	2.67
Baltimore, MD	15.89	13.97	1.92
Boston, MA	15.72	14.22	1.50
Charlotte, NC	16.74	14.07	2.67
Chicago, IL	15.01	12.77	2.24
Cincinnati, OH	15.19	13.17	2.02
Cleveland, OH	14.99	12.97	2.02
Dallas, TX	15.87	13.97	1.90
Denver, CO	14.37	13.52	0.85
Des Moines, IA	14.55	12.77	1.78
Detroit, MI	14.78	12.77	2.01
Hartford, CT	15.62	14.12	1.50
Houston, TX	16.47	14.57	1.90
Indianapolis, IN	14.99	12.97	2.02
Kansas City, MO	14.74	12.97	1.77
Louisville, KY	15.84	13.17	2.67
Memphis, TN	16.24	13.77	2.47
Miami, FL	18.91	15.27	3.64
Milwaukee, WI	14.96	12.72	2.24
Minneapolis, MN	14.36	12.67	1.69
New Orleans, LA	17.04	14.57	2.47
Oklahoma City, OK	15.37	13.57	1.80
Omaha, NE	14.30	12.82	1.48
Philadelphia, PA	16.29	14.02	2.27
Phoenix, AZ	13.47	13.32	0.15
Pittsburgh, PA	15.49	13.07	2.42
St. Louis, MO	14.64	12.97	1.67
Seattle, WA	13.29	12.87	0.42
Springfield, MO	14.97	13.17	1.80
Washington, DC	15.89	13.97	1.92
Simple Average	15.42	13.50	1.92

1/ This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.



## MONTHLY COLD STORAGE REPORT – TOTAL U.S. STOCKS

NOTE: Data for this report is collected from public, private and semiprivate warehouses, apple houses, and meat packing plants where food products are generally stored for 30 days or more. Commodities in space owned or leased and operated by the armed services are not reported. Food stocks held under bond are included in the storage data.

All stocks in thousand pounds except where otherwise indicated

## U.S. HOLDINGS OF DAIRY PRODUCTS

COMMODITY	MAY 31, 2004	MAY 31, 2005	REVISED MAY 31, 2006	JUNE 30, 2004	JUNE 30, 2005	JUNE 30, 2006
Butter	178,744	178,045	229,887	189,183	179,648	228,555
Cheese, Natural American	558,823	582,686	591,329	590,544	590,113	596,491
Cheese, Swiss	26,079	23,540	33,039	23,958	22,737	35,523
Cheese, Other Natural	219,557	209,409	221,892	227,545	210,594	231,838
Total Cheese	804,459	815,635	846,260	842,047	814,746	863,852

## U.S. GOVERNMENT OWNED COLD STORAGE HOLDINGS

Butter	255	224	179	155	177	113
Natural American Cheese	9,858	1,134	42	8,658	454	21

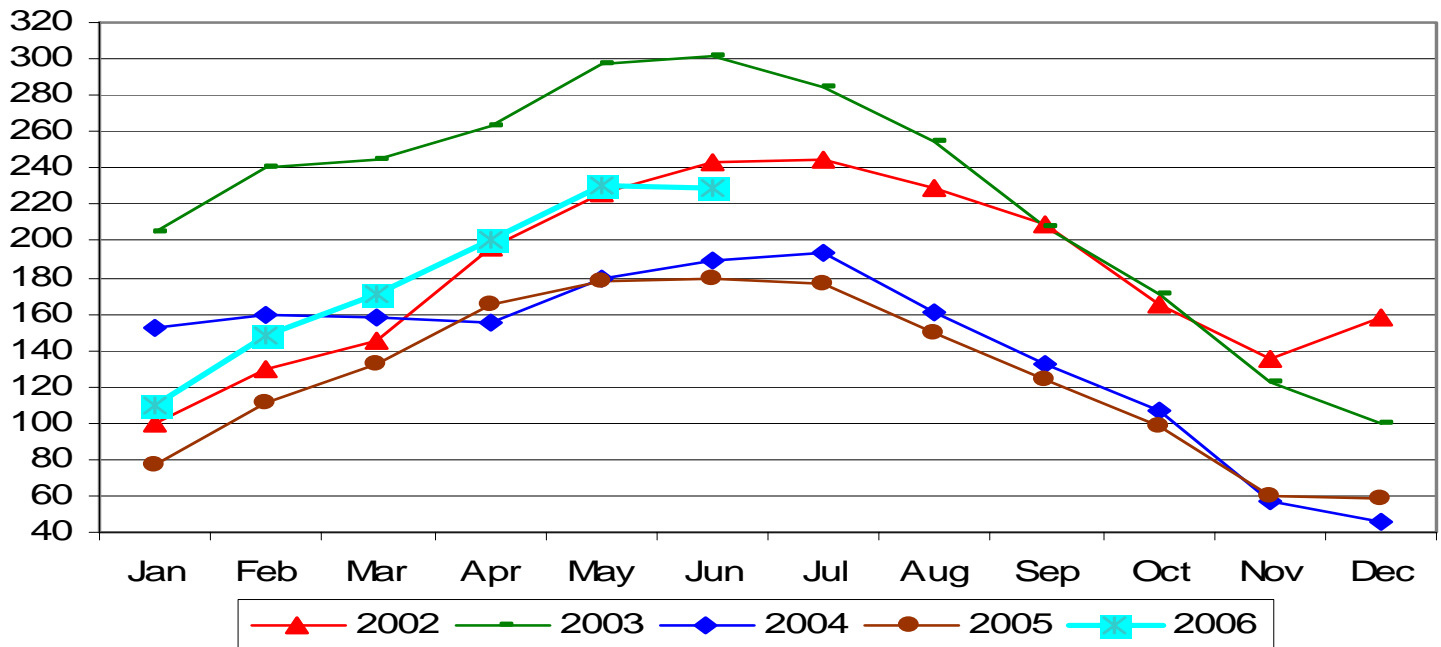
## JUNE STORAGE HOLDINGS BY REGION

REGION	Natural American Cheese			Butter *			Other Natural Cheese		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
New England	25,194	29,136	36,096	---	---	---	322	286	338
Middle Atlantic	59,141	54,439	51,484	---	---	---	19,184	12,587	11,288
East North Central	229,719	238,264	231,211	---	---	---	128,382	123,414	139,934
West North Central	132,809	134,711	120,218	---	---	---	56,549	54,222	60,287
South Atlantic	9,497	5,652	4,482	---	---	---	128	125	134
East South Central	87	83	364	---	---	---	2,519	2,535	2,886
West South Central	5,758	3,952	5,747	---	---	---	142	136	996
Mountain	32,580	39,661	49,396	---	---	---	5,871	2,473	266
Pacific	95,759	84,215	97,493	---	---	---	14,448	14,816	15,709
TOTAL	590,544	590,113	596,491	189,183	179,648	228,555	227,545	210,594	231,838

\*Regional breakdowns are not reported to avoid possible disclosure of individual operations.

Million Pounds

## Butter Cold Storage Holdings



## COMMERCIAL AND GOVERNMENT STORAGE HOLDINGS, JANUARY 2005 TO DATE

Month	Butter						Natural American Cheese						Nonfat Dry Milk					
	Total <u>1/</u>		Commercial		Government		Total <u>1/</u>		Commercial		Government		Total <u>1/ 2/</u>		Commercial		Government <u>2/</u>	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	Million Pounds						Million Pounds						Million Pounds					
January	110	77	110	77	<u>3/</u>	<u>3/</u>	533	484	533	480	<u>3/</u>	4	179	440	114	83	65	357
February	149	111	148	111	<u>3/</u>	<u>3/</u>	549	505	548	502	<u>3/</u>	3	175	374	119	79	55	296
March	170	132	170	132	<u>3/</u>	<u>3/</u>	564	527	564	526	<u>3/</u>	2	156	321	127	84	30	236
April	200	165	200	164	<u>3/</u>	<u>3/</u>	574	554	574	552	<u>3/</u>	2	176	276	155	108	21	168
May	230	178	230	178	<u>3/</u>	<u>3/</u>	591	583	591	582	<u>3/</u>	1	163	259	143	113	20	147
June	229	180	228	179	<u>3/</u>	<u>3/</u>	596	590	596	590	<u>3/</u>	<u>3/</u>	NA		116		NA	
July	177		177		<u>3/</u>		603		603		1		235		120		116	
August	149		149		<u>3/</u>		582		581		1		177		110		67	
September	124		124		<u>3/</u>		555		554		1		182		95		87	
October	98		98		<u>3/</u>		542		541		1		163		89		74	
November	60		60		<u>3/</u>		517		516		1		159		89		70	
December	59		59		<u>3/</u>		537		537		<u>3/</u>		183		114		69	

NA = Not available.

1/ Total may not add due to rounding. 2/ Includes instant nonfat dry milk. 3/ Less than 500,000 lbs.COMMERCIALLY OWNED COLD STORAGE HOLDINGS FOR THE UNITED STATES 1/

Commodity	May 31, 2004	May 31, 2005	May 31, 2006	Jun 30, 2004	Jun 30 2005	Jun 30, 2006
	Thousand Pounds					
Butter	178,489	177,821	229,708	178,028	179,471	228,442
Natural American Cheese	548,965	581,552	591,287	581,886	589,659	596,470

1/ Total holdings minus Government owned holdings. For more information, see page 9 of this report.

**SOURCE:** "Cold Storage," Co St 1 (7-06) and "Dairy Products," Da 2-6 (7-06), Agricultural Statistics Board, National Agricultural Statistics Service; and "Summary of Processed Commodities in Store," Farm Service Agency.

## WORLD DAIRY SITUATION AND OUTLOOK

**Summary** - The outlook for international dairy markets for the balance of 2006 continues to be fairly positive as demand continues to be driven by strong economic growth – over 6 percent forecast in developing countries and over 7 percent in Asian nations. This strong growth, particularly in developing regions, translates into rising disposable income accelerating expenditures not only for basic food products but also higher value added branded products. In the key China market, growth is expected to drop only slightly from the previous year but still near 10 percent. However, concerns remain over the persistence of high oil prices and the upward adjustment of interest rates in response to inflationary fears generated by these energy prices.

Global prices for the major dairy commodities, i.e., nonfat dry milk (NDM), whole milk powder (WMP), and cheese experienced a mild decline but for the most part appear to be settling at relatively high levels. In contrast, butterfat markets remain unsettled as excess supplies in the EU have filled the limited intervention stores that offer a fixed support price. As a result, prices have been slipping in recent months and the EU has been raising export restitutions in order to stimulate butterfat exports and balance the domestic market.

The milk supply situation is forecast to remain stable with milk production in Oceania expected to increase by nearly one percent with gains in New Zealand being offset by a decline in Australian production. In the EU, milk output for 2006 is projected to be fractionally higher and aside from butterfat, the internal markets appear to be well balanced. The consumption of cheese and other dairy products continues to absorb excess supplies of milk and export restitutions for WMP, and cheese are low or have been eliminated in the case of NDM.

**Dairy Production** - The 2006 forecast for Australian milk production was adjusted down by 5 percent to 10.25 million tons reflecting the emergence of dry conditions in southeastern Australia during the latter half of the season. This impact has been particularly severe in the main producing state of Victoria where milk production in March and April is reported to have dropped relative to last year by 8.9 percent and 5.8 percent, respectively. The Australian Bureau of Meteorology noted that “Australia-wide, it was the fifth driest June from 107 years of records, whilst it was the driest on record for Western Australia and the third driest for Victoria.” Consequently, total Australian milk output is now expected to decline by 2 percent from last year. In addition, the appreciation of the Australian dollar coupled with a drop in export prices is lowering profit margins and keeping financial pressure on dairy farmers. For the beginning of the next production season, the Australian Bureau of Meteorology is currently forecasting average temperatures and rainfall.

The 2006 New Zealand milk production forecast has been raised by 6 percent and total milk output is now expected to rebound by 3 percent over last year to reach 14.9 million tons. The 2005/06 season was marked by the onset of poor weather conditions during the peak milk production period that capped milk flows and led to a reduction in milk per cow yields. However, the expansion in cow numbers - up 3 percent from last year – resulted in near record milk output. For the next season, a modest gain in milk per cow productivity will likely boost milk output to levels that could well exceed the record of 15 million tons set in 2003/04. In fact, given that the herd size has grown by an average of 2.7 percent over the past 5 years it seems highly likely that New Zealand milk production will rise by 2 to 3 percent.

The 2006 EU milk production forecast is raised marginally but total milk production is slated to increase by less than half a percent over last year despite higher milk quota limits. Under the 2003 Common Agricultural

Continued on page 12

Policy (CAP) reforms the ceilings on 2006 production quotas for 11 EU members are raised by 0.5 percent. However, due to fears over excess supplies and low prices in such countries as the U.K., France, and Germany, the extra quota is unlikely to be exploited. Consequently, most of the reported increase in milk production is due to the greater flow of fluid milk to the processing industry in the new member states. Most of the additional milk that is being made available from greater production is being absorbed by the cheese industry which is expected to expand output by 1 percent. In contrast, the NDM and butter production is anticipated to decline while WMP output is stagnant.

**Dairy Trade** - The 2006 forecast for cheese trade in selected countries has been revised down by 4 percent since the December 2005 forecast due to lower export projections for the EU and Oceania. In New Zealand, cheese production is virtually unchanged and exports of cheese are expected to remain flat from 2005. Most of the additional milk flows are being channeled into the production of WMP and butterfat. However, Australian exports of cheese are now expected to fall significantly by 14 percent from 2005, reflecting lower milk production and lower export returns for cheese. In the EU, the cheese export forecast has also been lowered by 4 percent to 480,000 tons which is a 2 percent decline from 2005. This comes despite an expected rise in domestic production and is indicative of growing domestic consumption for cheese and increased competition in international markets.

Although U.S. cheese exports are relatively minor in world trade, higher world prices have boosted exports of U.S. cheese which are expected to jump by 21 percent over 2005 to reach a record 70,000 tons. Exports to Mexico have been particularly strong and year-to-date data through May 2006 indicates that relative to last year's pace, U.S. shipments to Mexico are up 57 percent. The other major markets are Canada, Japan, and Korea.

U.S. imports of cheese for 2006 were originally expected to grow above last year; however, imports are currently trailing last year's rate largely as a result of low domestic prices. Consequently, U.S. imports of cheese for 2006 are now anticipated to decline by 11 percent to 187,000 tons.

The global situation for butterfat has changed significantly particularly with respect to the EU where the export picture has deteriorated substantially. Originally the EU was expected to ship volumes similar to last year; however, strong export competition has led to a 22 percent downward revision in the 2006 export forecast. This was particularly evident in sales to Russia which suffered due to strong competition from the Ukraine. EU exports of butterfat are now forecast to drop by 18 percent this year to 280,000 tons. As a result, domestic prices have declined and producers have filled intervention stores up to the 50,000-ton limit for a guaranteed price (i.e., 92 percent of €2,824.4/ton or \$3,530/ton). Further EU intervention purchases have taken place but under a tender system which offers lower than the buy-in price. Starting July 1, 2006, the intervention price of butter drops by 8 percent to €2,595.2/ton (\$3,244/ton) and will be limited to 40,000 tons in 2007. Additional, purchases may take place at the discretion of the EU Commission.

In Oceania, the 2006 butter export forecast for New Zealand was raised by 21 percent due to increased milk flows which in turn led to higher butterfat production. Butter exports for 2006 are now estimated to grow by 17 percent over 2005 but will still remain below the peak levels of 2003 and 2004.

Continued on page 13



The 2006 forecast in NDM exports in selected countries was raised by 4 percent in expectation of higher than anticipated exports from Oceania. Nevertheless, this is only a small increase from 2005 – 2 percent – and is well below the average of 2003 and 2004 when NDM trade was 100,000 tons higher. This suggests that global markets will likely remain well balanced for the remainder of the year. The U.S. export forecast remains unchanged and reflects the slower pace of shipments through May 2006 which were down 22 percent compared to the same period last year.

In terms of WMP there have been no significant changes in the export outlook with exports among selected countries expected to be 3 percent lower than forecast but still 4 percent above 2005 exports. For Oceania, the 2006 projection has been decreased marginally – less than 1 percent – but still represents an increase of 54,000 tons in comparison to 2005. In contrast, EU shipments in 2006 are expected to be lower than in 2005. The EU appears to have adopted a conservative posture by not increasing export restitutions in order to match lower global prices and competition from Oceania.

**World Dairy Prices** - International dairy prices for cheese and WMP have been sliding for the past 6-12 months but appear to be stabilizing above \$2,000/ton FOB N. Europe. This is likely to remain the case for the balance of the year as economic conditions favor continued growth in demand for dairy products and supplies are relatively well balanced. The milk production season in Oceania is completed and new season dairy product shipments will probably not start to ramp up significantly until October 2006. In the EU, the Commission has kept export restitutions for milk powder and cheese under tight control while the United States is not considered a major supplier of cheese and WMP. Consequently, there is unlikely to be any downward pressure on prices for the remainder of the year.

The butterfat outlook is for a continued slide in prices as the EU attempts to deal with surplus supplies by raising export restitutions. Since the beginning of the year export refunds for butter have been increased by 8 percent to the current €95/ton (\$1,245/ton). However, the volume of excess supplies is not substantial since EU private and public stocks for July total around 216,000 tons which is well below the past 5-year average of 277,000 tons. Further, EU butter stocks tend to reach their maximum level in August and September and are subsequently drawn down as domestic production declines until the following spring. Consequently, world butterfat prices will probably start to stabilize in early fall.

The extreme range for NDM prices reflects at one end the globally competitive price of U.S. NDM trading at around \$2,000/mt FOB and at the other extreme, the price of EU NDM. At present, the EU domestic market looks set to remain balanced for the remainder of the year and there are no intervention stocks of NDM. In fact, the EU has terminated export restitutions and given that internal prices have been strengthening, EU exports of NDM are likely to be limited for the foreseeable future. Consequently, this leaves the United States as the major global supplier. Since the U.S. CCC support price is at \$1,764/ton (ex-plant) this effectively sets a price floor for world prices for the balance of the year.

**SOURCE:** “Dairy: World Markets and Trade”, Circular Series, FD 1-06, July 2006, Foreign Agricultural Service, USDA. For more information contact Paul Kiendl (Analysis) at (202) 720-8870 and Barbara Wolff (Marketing) at (202) 720-7400. This summary has been condensed from the original; information pertaining to the U.S. in the “Summary” and “Dairy Production” sections has been deleted.

## FEDERAL MILK ORDER ADVANCE PRICES, AUGUST

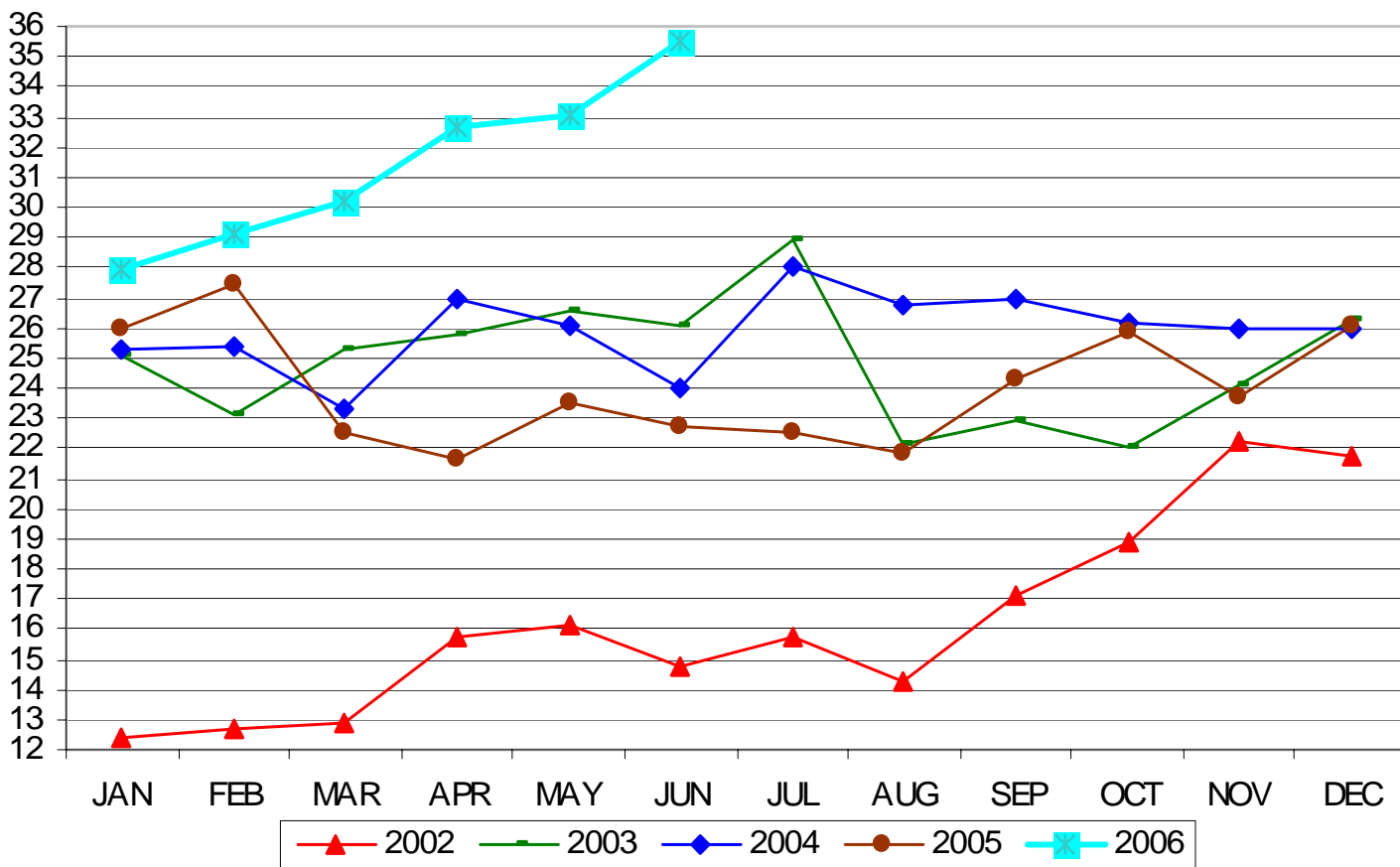
**Class I Base Price.** Under the Federal milk order pricing system, the Class I base price for August 2006 is \$10.97 per cwt. This price is derived from the advanced Class III skim milk pricing factor of \$6.96 and the advanced butterfat pricing factor of \$1.2154. A Class I differential for each order's principal pricing point (county) is added to the base price to determine the Class I price. **Comparison to Previous Month.** Compared to July 2006, the Class I base price decreased \$0.37 per cwt. For selected consumer products, the price changes are: whole milk (3.25% milk fat), - \$0.36 per cwt., - \$0.031 per gallon; reduced fat milk (2%), - \$0.33 per cwt., - \$0.028 per gallon; fat-free (skim milk), - \$0.30 per cwt., - \$0.026 per gallon. **Class II Price Information.** The advanced Class IV skim milk pricing factor is \$6.12. Thus, the Class II skim milk price for August is \$6.82 per cwt., and the Class II nonfat solids price is \$0.7578. **Product Price Averages.** The two-week product price averages for August are: butter \$1.1278, nonfat dry milk \$0.8268, cheese \$1.1858, and dry whey \$0.2796.

FEDERAL MILK ORDER CLASS I PRICE INFORMATION <sup>1/ 2/</sup>				
Federal Milk Order Marketing Area <sup>3/</sup>	Order Number	August 2006		
		Class I Price (3.5 %)	Class I Skim Milk Price	Class I Butterfat Price
		\$ per cwt.	\$ per cwt.	\$ per pound
Northeast (Boston) <sup>4/</sup>	001	14.22	10.21	1.2479
Appalachian (Charlotte) <sup>5/</sup>	005	14.07	10.06	1.2464
Southeast (Atlanta) <sup>6/</sup>	007	14.07	10.06	1.2464
Florida (Tampa) <sup>7/</sup>	006	14.97	10.96	1.2554
Mideast (Cleveland) <sup>8/</sup>	033	12.97	8.96	1.2354
Upper Midwest (Chicago) <sup>9/</sup>	030	12.77	8.76	1.2334
Central (Kansas City) <sup>10/</sup>	032	12.97	8.96	1.2354
Southwest (Dallas) <sup>11/</sup>	126	13.97	9.96	1.2454
Arizona (Phoenix) <sup>12/</sup>	131	13.32	9.31	1.2389
Pacific Northwest (Seattle) <sup>13/</sup>	124	12.87	8.86	1.2344
All-Market Average		13.62	9.61	1.2419

<sup>1/</sup> To convert the Class I price per 100 pounds to the Class I price per gallon, divide by 11.63--the approximate number of gallons in 100 pounds of milk. <sup>2/</sup> Note: The mandatory \$0.20 per cwt. processor assessment under the Fluid Milk Promotion Order is not included in the Class I prices shown on this table. <sup>3/</sup> Names in parentheses are the major city in the principal pricing point of the markets. <sup>4/</sup> Class I prices at other cities are: New York City, minus \$0.10; Philadelphia, minus \$0.20; Baltimore, minus \$0.25, and Washington, DC, minus \$0.25. <sup>5/</sup> Class I prices at other cities are: Knoxville, minus \$0.30 and Louisville, minus \$0.90. <sup>6/</sup> Class I prices at other cities are: New Orleans; plus \$0.50; Memphis, minus \$0.30; Nashville, minus \$0.50; and Springfield, Mo., minus \$0.90. <sup>7/</sup> Class I prices at other cities are: Orlando, same; Miami, plus \$0.30; and Jacksonville, minus \$0.30. <sup>8/</sup> Class I prices at other cities are: Indianapolis, same; Cincinnati, plus \$0.20; Pittsburgh, plus \$0.10; and Detroit, minus \$0.20. <sup>9/</sup> Class I prices at other cities are: Milwaukee, minus \$0.05; and Minneapolis, minus \$0.10. <sup>10/</sup> Class I prices at other cities are: Des Moines, minus \$0.20; Omaha, minus \$0.15; Oklahoma City, plus \$0.60; St. Louis, same; and Denver plus \$0.55. <sup>11/</sup> Class I prices at other cities are: Houston, plus \$0.60; San Antonio, plus \$0.45; Albuquerque, minus \$0.65; and El Paso, minus \$0.75. <sup>12/</sup> Effective May 1, 2006, the name of the Federal order was changed. Clark County, Nevada which includes Las Vegas, was removed from the marketing area. <sup>13/</sup> Effective May 1, 2006, the name of the Federal milk order was changed. Clark County, Nevada, which includes Las Vegas, was removed from the marketing area. <sup>13/</sup> Class prices at other cities are: Portland, same; and Spokane, same.

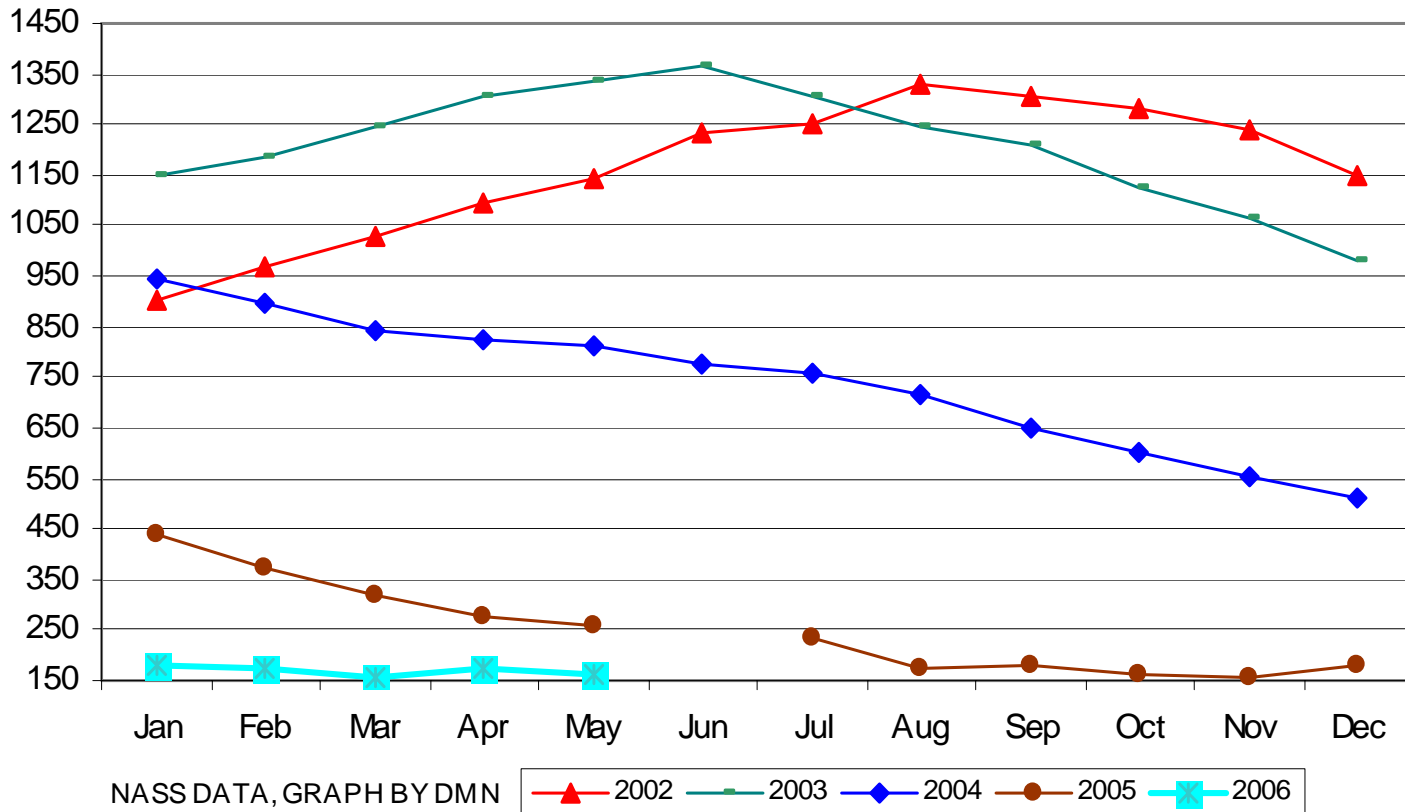
## U.S. SWISS CHEESE COLD STORAGE HOLDINGS

Million Pounds

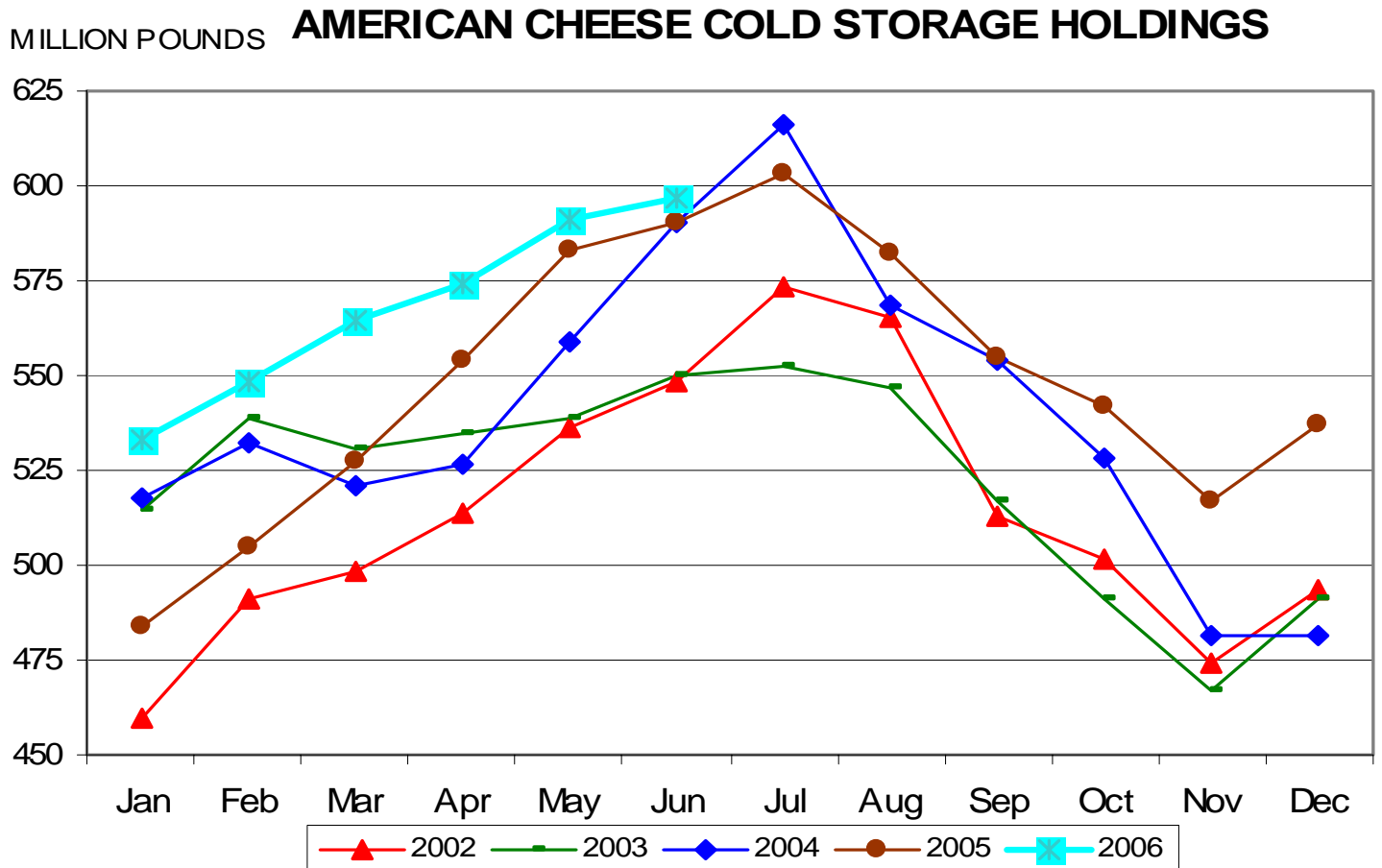
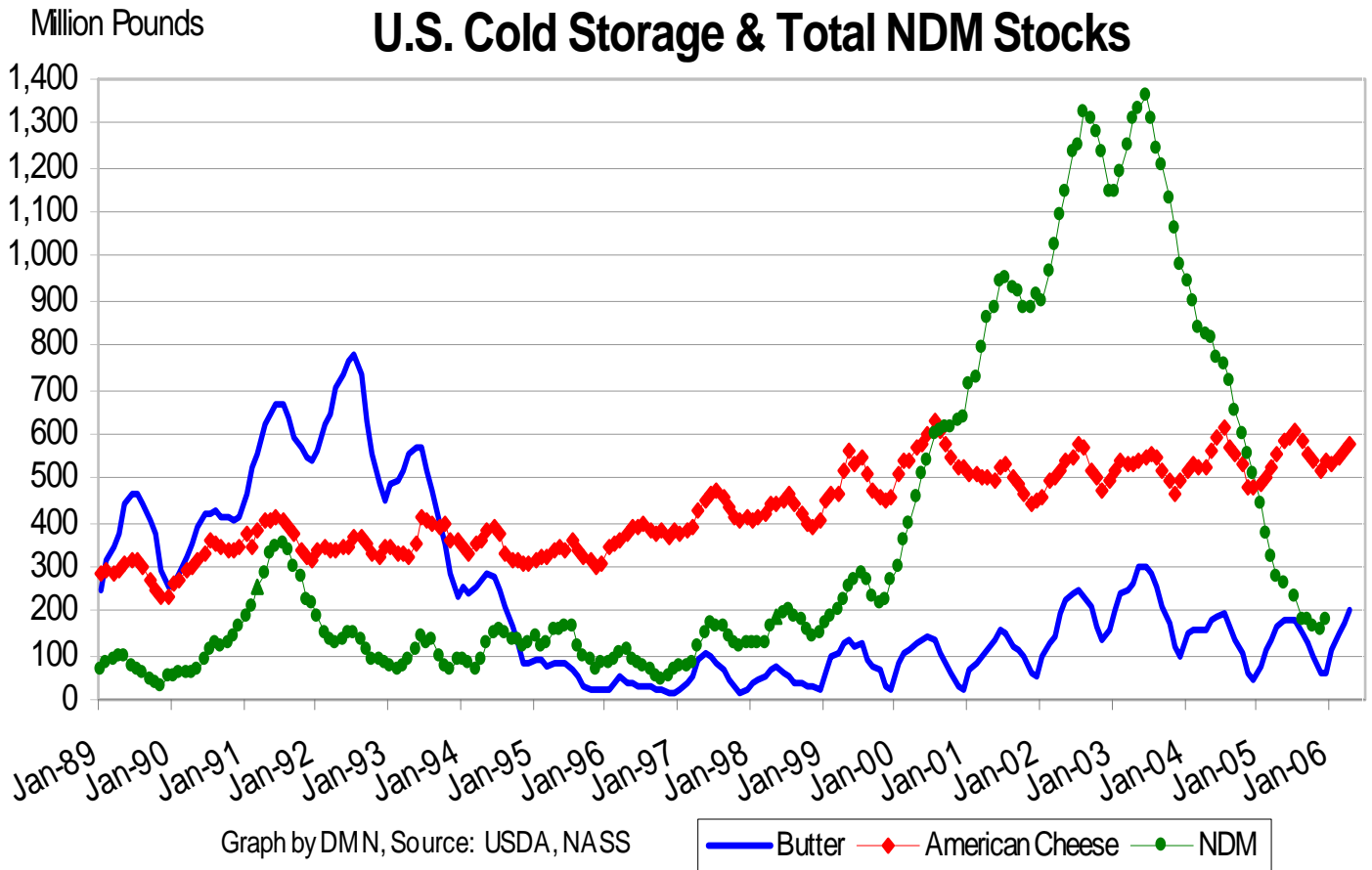


MILLION POUNDS

## COMBINED GOVERNMENT AND COMMERCIAL NDM STOCKS



NASS DATA, GRAPH BY DMN





# DAIRY MARKET NEWS

---

## GENERAL NUMBER

Elizabeth Frederick  
(608) 250-3200  
Elizabeth.Frederick@USDA.GOV

VOLUME: 73

REPORT: 30

DATE: 07/28/06

## NORTHEAST/SOUTHEAST

## CENTRAL

George Koerner  
(608) 250-3205  
George.Koerner@USDA.GOV

Colleen Curran  
(608) 250-3203  
Colleen.Curran@USDA.GOV

## SOUTHWEST

Lester "Butch" Speth  
(608) 250-3202  
Butch.Speth@USDA.GOV

## NORTHWEST/MOUNTAIN

Donald Nelson  
National Supervisor  
(608) 250-3206  
DonaldO.Nelson@USDA.GOV

## INTERNATIONAL

Steven Schneeberger  
(608) 250-3204  
Steven.Schneeberger@USDA.GOV

## INTERNET ADDRESS

WWW.AMS.USDA.GOV/DAIRY/MNCS/INDEX.HTM

## RECORDED INFORMATION SYSTEM

(608) 250-3208

## FAX

(608) 250-3216

---

USDA, Dairy Market News  
122 E Olin Ave Ste 290  
Madison, WI 53713-1487